

**COMMONWEALTH OF MASSACHUSETTS**

**DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Petition of Boston Gas Company d/b/a  
KeySpan Energy Delivery New England  
for Base Rate Relief Pursuant to  
G.L. c. 164, § 94

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D.T.E. 03-40

**MOTION FOR RECALCULATION, OR IN THE ALTERNATIVE, MOTION  
FOR RECONSIDERATION**

Boston Gas Company d/b/a/ KeySpan Energy Delivery New England (“Boston Gas” or the “Company”) hereby petitions the Department of Telecommunications and Energy (the “Department”) for recalculation, or in the alternative, reconsideration of certain calculations set forth in the order issued on October 31, 2003 (the “Order”) in the above-referenced proceeding. In total, the Order authorizes an increase in base distribution revenues of \$19,651,858.<sup>1</sup>

By this Motion, Boston Gas respectfully seeks recalculation or, if necessary, reconsideration of the Department’s revenue-requirement calculation on two issues. The two calculations are the inflation adjustment (Order at 255-257) and the capitalization of the Company’s post-test year incentive compensation adjustment (Order at 128).<sup>2</sup>

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<sup>1</sup> The Order establishes a “total base revenue deficiency” of \$23,799,928. Order at 512. However, in accordance with the Order, the Company will increase base revenues by \$23,799,928 and will decrease the revenue currently being collected through the Cost of Gas Adjustment Clause (“CGA”) by \$4,148,070. Therefore, from a total revenue perspective (i.e. base revenues plus CGA revenues), the actual revenue increase to the Company is \$19,651,858.

<sup>2</sup> The Company’s filing of this motion in conjunction with the compliance filing is not intended to be inclusive of all issues that may require consideration by the Department. Therefore, the Company reserves its right to file an additional motion for recalculation, clarification or reconsideration consistent with the provisions of 220 C.M.R. 1.11(9) and (10).

## **I. STANDARD OF REVIEW**

With regard to motions for recalculation and reconsideration, the Department's Procedural Rules, 220 C.M.R. § 1.11(9) and (10), authorize a party to file a motion for recalculation or consideration within twenty days of service of a final Department Order. The Department's standards for recalculation and/or reconsideration are well established. The Department will grant a motion for recalculation in instances where an order contains a computational error or if schedules in the Order are inconsistent with the findings and conclusions contained in the body of the order. Fitchburg Gas and Electric Light Company, D.T.E. 98-51-A, at 5 (1999); Western Massachusetts Electric Company, D.P.U. 89-255-A at 4 (1990); Essex County Gas Company, D.P.U. 87-59-A, at 1-2 (1988).

The Department will grant reconsideration of previously decided issues when extraordinary circumstances dictate that the Department take a fresh look at the record for the express purpose of substantively modifying a decision reached after review and deliberation. Fitchburg Gas and Electric Light Company, D.T.E. 98-51-A, at 5-6; North Attleboro Gas Company, D.P.U. 94-130-B at 2 (1995); Boston Edison Company, D.P.U. 90-270-A at 2-3 (1991); Western Massachusetts Electric Company, D.P.U. 558-A at 2 (1987). A motion for reconsideration should bring to light previously unknown or undisclosed facts that would have a significant impact upon the decision already rendered. It should not attempt to reargue issues considered and decided in the main case. Commonwealth Electric Company, D.P.U. 92-3C-1A at 3-6 (1995); Boston Edison Company, D.P.U. 90-270-A at 3 (1991); Boston Edison Company, D.P.U. 1350-A at 4 (1983). The Department has denied reconsideration when the request rests on an issue or updated information presented for the first time in the motion for reconsideration.

Western Massachusetts Electric Company, D.P.U. 85-270-C at 18-20 (1987); but see Western Massachusetts Electric Company, D.P.U. 86-280-A at 16-18 (1987). Alternatively, a motion for reconsideration may be based on the argument that the Department's treatment of an issue was the result of mistake or inadvertence. Massachusetts Electric Company, D.P.U. 90-261-B at 7 (1991); New England Telephone and Telegraph Company, D.P.U. 86-33-J at 2 (1989); Boston Edison Company, D.P.U. 1350-A at 5 (1983).

## II. DESCRIPTION OF REQUEST

As noted above, there are two items that are the subject of this request for recalculation or reconsideration by the Department, which are the Department's calculation of the inflation adjustment (Order at 255-257) and the capitalization of the Company's post-test year incentive compensation adjustment (Order at 128).

### A. Inflation Adjustment

In the Order, the Department approved an inflation allowance of \$1,498,621 (chart provided herewith as Appendix 1, page 1). Order at 257. The Department derived this amount by reducing the residual operations and maintenance ("O&M") expense calculated by the Company of \$67,108,373 by \$38,563,217, for a total residual O&M balance of \$28,545,156.

To calculate the residual O&M balance subject to the inflation adjustment, which is presented in Exhibit KEDNE/PJM-2, at 28 (provided herewith as Appendix 1, page 2), the Company included two items relating to bad-debt expense.<sup>3</sup> First, the Company

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<sup>3</sup> On the Company's schedule (presented in Appendix 1, page 2), figures with a negative sign are being subtracted from the residual O&M base and figures with a positive sign are being added to the residual O&M base.

added to the residual O&M balance the amount of test year local production and storage and bad-debt expense (\$25,588,070) collected through the Cost of Gas Adjustment Clause. Exh. KEDNE/PJM-2, at 21 (provided herewith as Appendix 1, page 3). As shown on the Department's Schedule 2, this amount is composed of local production and storage costs of \$15,324,998 and bad-debt expense of \$10,263,072. Order at 436; 513 (Schedule 2, provided herewith as Appendix 1, page 4). The Company then removed from the residual O&M base the total test-year bad-debt expense of \$15,503,342. This amount is composed of the bad-debt expense of \$10,263,072, which was recovered in the test year through the CGA, plus the amount of bad-debt expense that was recovered in the test year through base rates (\$5,240,270). See Exh. KEDNE/PJM-2, at page 22 (provided herewith as Appendix 1, page 5). The net effect of these two entries is to eliminate from the residual O&M base all bad-debt expense, including the \$10,263,072 that is combined with local production and storage costs to total \$25,588,070 for collection through the CGA.

In the Order, the Department found that all gas-related costs that are recovered through the CGA should be removed from test-year O&M expenses. Order at 256. Therefore, the Department reduced the residual O&M expense base calculated by the Company by \$25,588,070.<sup>4</sup> Id. at 257. However, the Department's adjustment to the Inflation Allowance duplicates the Company's entry to remove all test-year bad-debt expense from the residual O&M base, because the bad-debt amount of \$10,263,072 is included in both the Company's adjustment to remove bad-debt expense of \$15,503,342

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<sup>4</sup> In Table 1 (set forth in the Order at page 257 and provided as Appendix 1, page 1), figures with a "negative" sign (i.e., bracketed figures) are effectively being added to the residual O&M base and figures with a positive sign are being subtracted from the residual O&M base.

and the Department's adjustment to remove costs recovered through the CGA of \$25,588,070.

Accordingly, the Company respectfully requests that the Department recalculate the Inflation Allowance to reduce the residual O&M base for "Costs Recovered Through CGAC" in the amount of \$15,324,998 (local production and storage costs), rather than the entire amount of \$25,588,070, which includes \$10,263,072 in bad-debt expense already excluded from the residual O&M base by the Company. As shown on Appendix 1, page 6, this recalculation would increase the Company's cost of service by \$538,811.

B. Incentive Compensation

In the Order, the Department approved the Company's proposal to recover incentive-compensation expenses. Order at 128. In approving the Company's recovery of incentive-compensation expenses, however, the Department concluded that the incentive-compensation adjustment proposed by the Company "should include both a capitalized and an expense amount." Id. Therefore, the Department directed the Company to expense 66.3 percent of the incentive-compensation adjustment, which reduced the adjustment by \$755,460, or from \$2,241,721 to \$1,486,261. Id. As described below, the Company has identified a miscalculation in the incentive-compensation expense amount to be allowed in rates because the calculation includes amounts that: (1) are associated with an accounting entry that does not affect the revenue requirement; and (2) incentive compensation amounts included in the cost of service were already capitalized at the Service Company level.

The incentive-compensation adjustment referenced in the Department's Order is set forth in Exhibit KEDNE/PJM-2, at 8 (provided herewith as Appendix 2, page 1). As an initial matter, it should be noted that the Company's incentive-compensation adjustment does not have the effect of increasing the test-year cost of service as do other adjustments proposed by the Company. See Exh. KEDNE/PJM-1, at page 12, lns. 3-8 (provided herewith as Appendix 2, pages 2-5). The Department's Order states that the Company "proposes to increase its test year O&M expense by \$2,241,721 for an incentive compensation program for both union and non-union employees" and that the "majority of this increase" is related to an accounting adjustment. Order at 120, citing testimony of Mr. McClellan (Exh. KEDNE/PJM-1, at 12) (emphasis added). However, the Company's testimony states that the "majority of this amount represents an 'accounting' adjustment that does not affect the revenue requirement." Exh. KEDNE/PJM-1, at 12, lns. 3-8 (emphasis added).

The bulk of this adjustment (\$2,097,330 of the total adjustment of \$2,241,721) is the same type of accounting adjustment as the Severance Adjustment, which was approved by the Department in its Order, at page 137. In approving the Severance Adjustment, the Department stated that:

The proposed adjustment, made in compliance with GAAP, eliminated the effect of an adjustment the Company made to its books to reverse amounts associated with the accrual of severance expense. The reversal of an accounting entry that was made in the test year has no effect on the Company's revenue requirement because the end result of such an adjustment is a zero cost to ratepayers. Therefore, the Department accepts the Company's proposal to increase its test year O&M expense by \$250,000 associated with the accrual of severance expense.

(Order at 137, citations omitted).

Similarly, the Company's incentive compensation adjustment is largely composed of an accounting entry (in the amount of \$2,097,330) made to eliminate the effect of reversing an accrual in the test year and to restore the actual test-year cost of service for ratemaking purposes. Given this fact, the incentive compensation adjustment increases the test-year level of incentive compensation expense by only \$144,391, and not the \$2,241,721 that is referenced by the Department.

In that regard, the Company's adjustment is composed of three steps: (1) an adjustment to remove the effect of a journal entry made in 2002 to reverse an over-accrual from 2001 (\$2,097,330); (2) an adjustment to reduce the test-year amount of direct incentive compensation to bring the test-year level to "target" (\$13,866); and (3) a similar adjustment to bring the Service Company 2002 incentive compensation to target (\$158,257). In combination, these three adjustments equal the total incentive compensation adjustment of \$2,241,721, which is the amount that the Department has reduced by a factor of 34 percent in order to derive the "expense" and "capitalized" portions. Each of the three steps is discussed in turn below.

First, as described in the testimony of Mr. McClellan and shown on Exhibit KEDNE/PJM-2, at page 8 (Appendix 2, page 1), the Company recorded an accrual in 2001 for incentive-compensation expense that the Company expected to incur for union and non-union employees for 2001 performance. See, Exhibit KEDNE/PJM-1, at 10, lns. 16-18. As explained by Mr. McClellan, the Company actually makes incentive compensation payments in March for performance in the prior year. Exh. KEDNE/PJM-1, at 10, lns. 1-3. Therefore, the Company enters an accrual on its books as of December

31 of each year to account for the liability that it has incurred during the year for payments that will be paid to employees in March of the next year. Id. at 10.

The record shows that the actual amount of incentive-compensation expense paid out in March 2002 for employee performance in 2001 was less than the amount of the accrual entered on the books at the end of 2001. Exh. KEDNE/PJM-1, at 10, lns. 18-21. Specifically, the record shows that the amount of the over-accrual recorded as an expense in 2001 was \$2,097,330. Id.; Exh. KEDNE/PJM-2, at 8; Exh. KEDNE/PJM-2 [supp.], at 39-40. Therefore, to remove the over-accrual of \$2,097,330, the Company made two journal entries in 2002, which were provided in Exhibit KEDNE/PJM-2 [supp.], at 0038-40 (provided herewith as Appendix 2, pages 6-8). These journal entries show a credit to the O&M expense Acct 930 in the amount of \$1,985,980 and \$111,350, totaling \$2,097,330.

The 2002 journal entries to reverse the accrual for 2001 also had the effect of reducing the amount of incentive-compensation expense recorded on the Company's books for the test year (2002). Exh. KEDNE/PJM-1, at 11, at lns. 1-4. Therefore, the Company had to add this amount (\$2,097,330) back into the test-year through the proposed post-test year adjustment to the cost of service, which effectively brought the test-year incentive-compensation expense amount back to the actual level of test-year compensation for ratesetting purposes. Id. As a result, the adjustment of \$2,097,330 does not represent an increase in incentive-compensation expenses over and above the test-year level, but rather, is the same type of adjustment made to account for the reversal of accrued severance expenses in the test year.

Second, in this case, the Company reduced test-year compensation expense by \$13,866 to reflect the Company's target liability for performance in 2002.<sup>5</sup> Exh. KEDNE/PJM-1, at 11, lns. 5-6. As explained in Mr. McClellan's testimony, this amount represents the difference between the \$1,125,741 initially recorded as an accrued expense on the Company's books in 2002 (for employee performance in 2002) and the "target" incentive compensation expense of \$1,111,875. Id. at lns. 6-10. The Company made this adjustment in order to set the test-year level of incentive compensation expense at target, because the target level is more representative of the expense over time. Id. at lns. 11-14. The actual amount of incentive compensation paid out for 2002 exceeded the target level, so setting the expense at target had the effect of reducing the cost in the test year to \$1,111,875. Id.

Similarly, the Company adjusted test-year compensation expense by \$158,257 to reflect the Service Company's target liability for performance in 2002. Exh. KEDNE/PJM-1, at 11, lns. 15-21; Exh. KEDNE/PJM-2, at 8. As explained in Mr. McClellan's testimony, this amount represents the difference between the \$17,305,603 initially recorded as an accrued expense on the Service Company's books in 2002 (for employee performance in 2002) and the "target" incentive compensation expense of \$18,300,930. Id. The difference between the accrued expense and the actual expense is \$995,327, of which only 15.9 percent is allocated to Boston Gas. Exh. KEDNE/PJM-2, at 8; Exh. KEDNE/PJM-2 [supp.] at page 39. The record shows that the 15.9 percent allocation represents the O&M portion of costs that were incurred by the Service Company and charged to Boston Gas. See e.g., Exh. KEDNE/PJM-2 [supp.], at 00037

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<sup>5</sup> If the Department were to apply the capitalization factor of 33.7 percent to this amount, the revenue requirement would increase by \$4,673. The Company did not request such an adjustment.

(provided as Appendix 2, page 9). Therefore, the amount of \$158,257, included in the Company's adjustment for Service Company incentive compensation cost is an expense amount that is already exclusive of capitalized amounts. As a result, this adjustment increases the cost of service by \$156,257, which when netted with the reduction of \$13,866 (discussed above) results in a net increase to the cost of service of \$144,391, as noted in the testimony of Mr. McClellan. Exh. KEDNE/PJM-1, at 12.

In combination, these three adjustments equal the total incentive compensation adjustment of \$2,241,721. However, the record shows that the net effect on the revenue requirement is \$144,391, not \$2,241,721, and that this amount is an expense amount allocated by the Service Company exclusive of the capitalized portion. Exh. KEDNE/PJM-1, at 12, lns 3-8. Therefore, the record shows that it is not appropriate to capitalize the Company's test-year adjustment.

Accordingly, the Company respectfully requests that the Department recalculate the allowed level of Incentive Compensation expense to restore the \$755,460 that was eliminated through the expense/capitalization calculation.

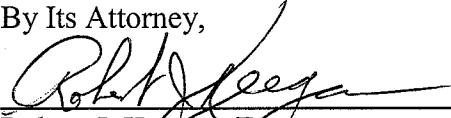
### **III. CONCLUSION**

For the reasons stated above, the Company respectfully requests that the Department grant recalculation, or in the alternative, reconsideration of the Department's calculations of the inflation allowance and incentive compensation expense. In total, the recalculation would restore \$1,294,271 to the Company's approved cost of service.

Respectfully submitted,

**BOSTON GAS COMPANY**

By Its Attorney,

A handwritten signature in dark ink, appearing to read "Robert J. Keegan", is written over a horizontal line.

Robert J. Keegan, Esq.

Keegan, Werlin & Pabian, LLP

265 Franklin Street

Boston, Massachusetts 02110

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Dated: November 7, 2003

TABLE 1		
<b>TEST YEAR O&amp;M EXPENSES EXCLUDING GAS</b>		154,113,164
<b>LESS: TEST YEAR ADJUSTMENTS</b>		
Wages - Union	46,729,199	
Wages - Non-Union	26,105,883	
Incentive Compensation	(2,097,330)	
Dental Expense	977,514	
Health Care Expense	8,420,912	
Pensions	6,230,016	
OPEB	6,198,509	
Insurance	1,518,493	
Property Leases	2,131,861	
Postage Fees	2,423,592	
Incremental Accounting Adjustments	(7,256,297)	
Severance	(250,000)	
Costs Recovered Through CGAC	(25,588,070)	
Bad Debts	15,503,342	
Lobbying Expense	13,247	
Advertising	641,204	
Fines/Penalties	71,150	
Adjustments to Service Company Expenses	2,194,835	
FICA Taxes Included in O&M	2,553,516	
Meter Fees	483,215	
<b>TOTAL</b>	<b>87,004,791</b>	
<b>RESIDUAL O&amp;M EXPENSES SUBJECT TO INFLATION PER COMPANY</b>		67,108,373
<b>LESS: DTE ADJUSTMENTS</b>		
Officer Expenses	158,846	
"Above and Beyond" Payments	90,494	
Promotional Expense	11,507,007	
Customer Guarantee Payments	108,125	
Advertising	1,110,675	
Costs Recovered Through CGAC	25,588,070	
<b>DTE Subtotal</b>	<b>38,563,217</b>	
<b>Total Residual O&amp;M Expense</b>		28,545,156
<b>Inflation Increase to be Applied to the Company's Residual O&amp;M Expense</b>		5.25%
<b>INFLATION ALLOWANCE</b>		1,498,621

→ \$15,324,998 (Prod & Stor)  
+ 10,263,072 (Bad debt)

→ 10,263,072 (CGAC)  
+ 5,240,270 (BASE)

→ 15,324,998  
+ 10,263,072

**BOSTON GAS COMPANY**  
**Adjustments to Operating Expenses**  
**Test Year Ended December 31, 2002**

<b>Operating Expenses: Inflation Adjustment</b>
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	<u>Description</u>	<u>Amount</u>
1	<b>Test Year Residual O&amp;M Expense Base</b>	
2	Total Test Year Operations and Maintenance Expense	154,113,164
3	<u>Less Test Year Amounts for:</u>	
4	Wages - Union (Page 6)	(46,729,199)
5	Wages - Non-Union (Page 7)	(26,105,883)
6	Incentive Compensation (Page 8)	2,097,330
7	Dental Expense (Page 10)	(977,514)
8	Health Care Expense (Page 11)	(8,790,912)
9	Pensions (Page 12)	(20,000,642)
10	OPEB	(6,198,509)
11	Insurance (Page 13)	(1,518,493)
12	Property Leases (Page 14)	(2,103,357)
13	Postage Fees (Page 16)	(2,423,592)
14	Incremental Accounting Adjustments (Page 18)	7,256,297
15	Severance (Page 19)	250,000
16	Costs Recovered Through CGA (Page 21)	25,588,070
17	Bad Debts (Page 22)	(15,503,342)
18	Lobbying Expense (Page 23)	(13,247)
19	Advertising (Page 24)	(1,751,879)
20	Fines/Penalties (Page 25)	(71,150)
21	Adjustments to Service Company Expenses (Page 26)	(1,445,365)
22	FICA Taxes included in O&M (Page 33)	(2,553,516)
23	<b>Residual O&amp;M Expenses Subject to Inflation</b>	53,118,261
24	Increase in GDPIPD From Midpoint Of The Test Year	
25	To The Midpoint of Rate Year	5.25%
26	<b>Total Inflation Adjustment</b>	<b><u>2,788,709</u></b>

**BOSTON GAS COMPANY**  
**Adjustments to Operating Expenses**  
**Test Year Ended December 31, 2002**

<b>Operating Expenses: Costs Recovered through CGA</b>
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1	Production & Storage and Gas Procurement Costs	15,324,998
2	Bad Debt Costs	<u>10,263,072</u>
3	<b>Total CGA Recoverable Costs Adjustment</b>	<b><u>25,588,070</u></b>

## SCHEDULE 2

OPERATIONS AND MAINTENANCE  
EXPENSES

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Purchased Gas Expense	345,823,335	0	0	345,823,335
<i>ADJUSTMENTS TO PURCHASED GAS EXPENSE:</i>				
Gas Cost Adjustment	(21,303,200)	0	0	(21,303,200)
CGA Recoverable Costs-Production&Storage and Gas Procurement Costs	(15,324,998)	0	14,374,848	(950,150)
CGA Recoverable Costs-Bad Debt Costs	(10,263,072)	0	5,357,825	(4,905,247)
Total Adj. to Purchased Gas Expense	(46,891,270)	0	19,732,673	(27,158,597)
Total Purchased Gas Expense	298,932,065	0	19,732,673	318,664,738
O&M Expense	154,113,164	0	0	154,113,164
<i>ADJUSTMENTS TO O&amp;M EXPENSE:</i>				
2002 Union Wage & Salary expense	2,830,121	0	0	2,830,121
2002 Management & Salary expense	1,408,642	(263,251)	0	1,145,391
Incentive Compensation Expense	2,241,721	0	(755,460)	1,486,261
Transition Base Pay to Variable Pay	297,372	0	0	297,372
Dental Expense	51,432	0	0	51,432
Health Care Expense	1,128,502	(418,877)	0	709,625
Pension Expense	11,855,419	0	(18,085,435)	(6,230,016)
Insurance Expense *	556,705	40,888	0	597,593
Property Leases	1,041,262	772,925	(42,281)	1,771,906
Gain on Sale of Utility Property	(40,496)	0	18,200	(22,296)
Postage Increase Expense	124,491	0	0	124,491
Strike Contingency Expense	80,466	0	0	80,466
Incremental Costs	7,256,297	0	0	7,256,297
Severance Expense	250,000	0	0	250,000
Rate Case Expense	333,058	81,027	(231,452)	182,633
CGA Recoverable Costs-Production&Storage and Gas Procurement Costs	15,324,998	0	(14,374,848)	950,150
CGA Recoverable Costs-Bad Debt Costs	10,263,072	0	(10,263,072)	0
Bad Debt Expense	(4,299,361)	0	3,389,867	(909,494)
Lobbying Expense	(13,247)	0	0	(13,247)
Advertising expense	(641,204)	(2,717)	(74,893)	(718,814)
Fines and Penalties	(71,150)	0	(143,537)	(214,687)
Service Company expense	(1,445,365)	(749,470)	(104,816)	(2,299,651)
Charitable Contribution Expenses	0	0	0	0
Meter Inspection Fee Increase	0	483,215	0	483,215
"Above+Beyond" Awards	0	0	(90,494)	(90,494)
Promotional Allowances	0	0	(5,614,256)	(5,614,256)
Officer Expenses	0	0	(158,846)	(158,846)
Inflation Allowance	2,788,709	734,481	(2,024,569)	1,498,621
Total Adjustment to O&M Expense	51,321,444	678,221	(48,555,892)	3,443,773
Total O&M Expense	205,434,608	678,221	(48,555,892)	157,556,937
Adjusted Total O&M and Purchase Gas Expense	504,366,673	678,221	(28,823,219)	476,221,675

\* This insurance expense item includes the Company's proposed nuclear insurance of \$9,694 (Exh. KEDNE/PJM-2, (rev. 3) at 13).

**Boston Gas Company**  
**Adjustments To Operating Expenses**  
**Test Year Ended December 31, 2002**

**Operating Expenses: Bad Debt Expense**

<u>Description</u>		<u>Firm Billed Revenue</u>	<u>Net Write-Offs</u>	<u>% of Write-Offs To Revenue</u>
Year:				
1	2000	620,826,000	11,571,000	1.86%
2	2001	841,760,000	10,708,000	1.27%
3	2002	610,873,094	15,572,000	2.55%
4	Total	2,073,459,094	37,851,000	
5	Three Year Weighted Average Of			
6	Net Write-Offs As A % Of Firm Billed Revenue			
				1.83%
7	Test Year Normalized Firm Sales:			
8	Test Year Firm Gas Revenues - Billed		610,873,094	
9	Add: Firm Sales Adjustments		1,366,333	
10	Test Year Normalized Firm Sales			612,239,427
11	Total Adjusted revenue			612,239,427
12	Allowable bad debt expenses (line 17 x line27)			11,203,982
13	Less: Test Year Bad Debt Expense 2002			(15,503,342)
14	Total Bad Debt Expense Adjustment			<u>(4,299,361)</u>

Calculation of Inflation Allowance

		Corrected		Additional Revenue Requirement
<b>TEST YEAR O&amp;M EXPENSES EXCLUDING GAS</b>		\$ 154,113,164	\$ 154,113,164	
Wages - Union	\$ (46,729,199)			
Wages - Non-Union	\$ (26,105,883)			
Incentive Compensation	\$ 2,097,330			
Dental Expense	\$ (977,514)			
Health Care Expense	\$ (8,420,912)			
Pensions	\$ (6,230,016)			
OPEB	\$ (6,198,509)			
Insurance	\$ (1,518,493)			
Property Leases	\$ (2,131,861)			
Postage Fees	\$ (2,423,592)			
Incremental Acctg Adjustments	\$ 7,256,297			
Severance	\$ 250,000			
<b>Costs Recovered Thr CGAC</b>	<b>\$ 25,588,070</b>			
<b>Bad Debt Expense</b>	<b>\$ (15,503,342)</b>			
Lobbying Expense	\$ (13,247)			
Advertising	\$ (641,204)			
Fines and Penalties	\$ (71,150)			
Adjustments to Servco Expenses	\$ (2,194,835)			
FICA Taxes Incl. in O&M	\$ (2,553,516)			
Meter Fees	\$ (483,215)			
Total Adjustments Removed	\$ (87,004,791)	\$ (87,004,791)		
<b>Total Residual O&amp;M Balance Per Company</b>	<b>\$ 67,108,373</b>	<b>\$ 67,108,373</b>		
<b>Less: DTE Adjustments</b>				
Officer Expenses	\$ (158,846)	\$ (158,846)		
"Above and Beyond" Payments	\$ (90,494)	\$ (90,494)		
Promotional Expense	\$ (11,507,007)	\$ (11,507,007)		
Customer Guarantee Payments	\$ (108,125)	\$ (108,125)		
Advertising	\$ (1,110,675)	\$ (1,110,675)		
<b>Costs Recovered Through CGA</b>	<b>\$ (25,588,070)</b>	<b>\$ 10,263,072</b>	<b>\$ (15,324,998)</b>	
Total Amount Removed from Company's Calculation	\$ (38,563,217)	\$ (28,300,145)		
<b>Total Residual O&amp;M Balance Per DTE Order</b>	<b>\$ 28,545,156</b>	<b>\$ 38,808,228</b>		
	5.25%	5.25%		
	<b>\$ 1,498,621</b>	<b>\$ 2,037,432</b>	<b>\$ 538,811</b>	
Production & Storage	\$ 15,324,988			
<b>Bad Debts</b>	<b>\$ 10,263,072</b>			
	\$ 25,588,060			

**Boston Gas Company**  
**Adjustments to Operating Expenses**  
**Test Year Ended December 31, 2002**

<b>Operating Expenses:    Incentive Compensation</b>
--

1	Accrual of 2001 Incentive Compensation	
2	Reversed in 2002	2,097,330
3	Test Year 2002 Incentive Compensation	
4	Accrual Recorded	(1,125,741)
5	2002 Incentive Compensation at Target Level	<u>1,111,875</u>
6	<b>Test Year Adjustment</b>	<b><u>2,083,464</u></b>
7	<b><u>Service Company Incentive Compensation</u></b>	
8	Test Year 2002 Servco Incentive Comp. Accrual	17,305,603
9	2002 Incentive Compensation at Target Level	<u>18,300,930</u>
10		995,327
11	% to Boston	15.90%
12	<b>Test Year Adjustment</b>	<b><u>158,257</u></b>
13	<b>Total Incentive Compensation Adjustment</b>	<b><u>2,241,721</u></b>

1 union payroll expense allocated to Boston Gas from the Service Company totaling  
2 \$551,998. In total, the adjustment to test-year payroll expense for union  
3 employees is \$2,830,121.

4 **Q. Would you review the payroll adjustments relating to non-union personnel?**

5 A. As further described in the testimony and accompanying exhibits of Mr. Orlando,  
6 the Company's non-union employees received a merit increase of 2.75 percent in  
7 New England, and 3.75 percent in New York, effective April 1, 2002. In  
8 addition, on October 1, 2003, non-union employees will receive an annual  
9 increase of 3.5 percent in New England and 4.5 percent in New York. On Exhibit  
10 KEDNE/PJM-2, at page 7, I have calculated adjustments to test-year non-union  
11 payroll expense to account for these known and measurable changes. As shown  
12 therein, the Company made an adjustment of \$33,272 to annualize the increase for  
13 2002, and an adjustment of \$174,974 to incorporate the increase that will become  
14 effective on October 1, 2003 for Boston Gas employees. Therefore, total  
15 adjustments for direct non-union payroll expense are \$208,246. Similar  
16 adjustments are made for non-union payroll expenses allocated to Boston Gas  
17 from the Service Company totaling \$1,200,396. Therefore, the total test-year  
18 adjustment for non-union payroll is \$1,408,642.

19 **Q. Please explain the adjustment that is made to incentive compensation.**

20 A. The Company's incentive compensation plan is described in the testimony of  
21 Mr. Orlando. As described therein, incentive compensation represents the

1 variable portion of the wages and salaries paid to union and non-union employees  
2 serving the Company. Incentive compensation is paid to employees in March for  
3 performance in the prior year based on fixed performance criteria and  
4 compensation guidelines. With respect to the amount of incentive compensation  
5 paid, the Incentive Plan establishes a pay-out scale for each performance goal. If  
6 performance goals or "targets" are met for the annual performance period,  
7 employees receive 100 percent of the target pay-out amount. In addition, a  
8 minimum acceptable level, or "threshold," is established for each performance  
9 goal, as well as a "maximum." For performance at the threshold level, the  
10 incentive pay-out is 50 percent of the target-incentive level, and if performance is  
11 at or above the maximum, the pay-out is two times the target level. Pay-outs are  
12 prorated to the extent that performance falls within this bandwidth. In Exhibit  
13 KEDNE/PJM-2, at page 8, the Company has adjusted test-year incentive  
14 compensation expense to reflect the target incentive compensation applicable to  
15 wages paid in 2002. This is accomplished in three steps.

16 First, in 2001, the Company recorded an accrual for incentive compensation  
17 expense to reflect the liability associated with incentive compensation due to  
18 union and non-union employees for 2001 performance. In 2002, the actual  
19 incentive compensation expense for 2001 was calculated to be less than the  
20 accrued amount by \$2,097,330. Therefore, in 2002, the Company reversed the  
21 over accrual by making an entry to reduce incentive compensation expense by

1       \$2,097,330. As a result, to calculate properly the test-year expense for inclusion  
2       in rates, the Company needed to increase test-year incentive-compensation costs  
3       by \$2,097,330, which eliminates the effect of the entry made in 2002 to correct  
4       for 2001 expense levels.

5       Second, the Company reduced test-year incentive compensation expense by  
6       \$13,866 to reflect the Company's target liability for performance in 2002. This  
7       amount represents the difference between the \$1,125,741 initially recorded as an  
8       accrual on the Company's books in 2002, and the target incentive-compensation  
9       expense of \$1,111,875 for Boston Gas employee performance in 2002. The  
10      average incentive pay-outs for employee performance in 2002 actually exceeded  
11      the 100% target level. However, as discussed in the testimony of Mr. Orlando,  
12      the target level of compensation is more representative of the Company's  
13      incentive-compensation expense over time, and therefore, the Company has  
14      reduced the test-year expense level to reflect the target-level incentive.

15      Third, the Company increased test-year incentive compensation expense by  
16      \$158,257 to reflect the Company's liability for incentive compensation due to  
17      Service Company employee performance in 2002. This amount represents the  
18      difference between the \$17,305,603 initially recorded as an accrual on the Service  
19      Company's books in 2002, and the \$18,300,930 that is the incentive target level  
20      for 2002. The total adjustment in the test year for the Service Company is  
21      \$995,327, of which 15.90 percent (or \$158,257) is allocated to Boston Gas based

1 on the proportion of Service Company labor costs charged to the Boston Gas cost  
2 of service.

3 The net of these three adjustments is \$2,241,721. However, the majority of this  
4 amount represents an "accounting" adjustment that does not affect the revenue  
5 requirement. The net effect on the revenue requirement is \$144,391, or the  
6 adjustment of \$158,257 to increase the test-year expense to reflect target  
7 incentive-compensation levels for Service Company employees, less the reduction  
8 of \$13,866 relating to direct employees.

9 **Q. Please explain the test-year adjustment made to standardize the variable pay**  
10 **structure for KeySpan employees.**

11 **A.** As described in the testimony of Mr. Orlando, KeySpan is nearing completion of  
12 a three-year transition plan to standardize the wage and salary structure for non-  
13 union employees of the regulated gas distribution companies in Massachusetts  
14 and New York. The payroll structure for non-union employees is composed of a  
15 base-salary component and a variable component. To achieve the standardized  
16 structure, payroll increases for Boston Gas non-union employees are less than the  
17 payroll increases in New York, while the percentage of incentive compensation  
18 for Boston Gas non-union employees is increasing. The calendar year ending  
19 December 31, 2003 represents the final year of the transition plan. In accordance  
20 with the plan, base wages for Boston Gas non-union employees will increase in  
21 2003 at a rate that is 1 percent less than the increase for New York non-union  
22 employees. This difference is also discussed in the testimony of Mr. Orlando.

Boston Gas Company  
Adjustments to Operating Expenses  
Test Year Ended December 31, 2002

**Operating Expenses: Incentive Compensation**

- 1 Accrual of 2001 Incentive Compensation
- 2 Reversed in 2002
- 3 Test Year 2002 Incentive Compensation
- 4 Accrual Recorded
- 5 2002 Incentive Compensation at Target Level
- 6 Test Year Adjustment

See Journal Entries  
1,985,980  
111,350  
2,097,330

(1,125,741) See Worksheet  
1,111,875 - See Email  
2,083,464

7 Service Company Incentive Compensation

- 8 Test Year 2002 Servco Incentive Comp. Accrual
- 9 2002 Incentive Compensation at Target Level
- 10
- 11 % to Boston
- 12 Test Year Adjustment

17,305,603 (A)  
18,300,930 (B)  
995,327 (C)  
15.90% (D)  
158,257 (E)

- 13 Total Incentive Compensation Adjustment

2,241,721

00038

Posting Status: Unposted  
Frequency: USD  
Source: Manual

Batch Name: NE MUL8004 KQ 04-JAN-2003 11:49:29

Journal Entry Name: NE MUL8004 KQ  
Journal Reference:

Unposted Journals  
For DECEMBER-02

Report Date: 04-JAN-2003 11:58  
Page: 1 of 1

Acct. 242

Misc. Current & Accrued  
Liabilities

Category: JE  
Currency: USD

Batch Effective Date: 31-DEC-02 Balance: Actual Posted Date:

Line Accounting Flexfield	Trans Date Description	Line Item	Debits	Credits	Units
10 01-000-000000-000-26522-000000-000-01	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		1,319,419.60		0.00
20 01-000-000000-000-26522-000000-000-01	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		762,633.00		0.00
30 01-997-000000-000-242AA-000000-997-01	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			2,082,052.60	0.00
40 02-000-000000-000-26522-000000-000-02	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		23,316.73		0.00
50 02-000-000000-000-26522-000000-000-02	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		44,038.00		0.00
60 02-997-000000-000-242AA-000000-997-02	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			67,354.73	0.00
70 03-000-000000-000-26522-000000-000-03	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		60,140.94		0.00
80 03-000-000000-000-26522-000000-000-03	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		33,600.00		0.00
90 03-997-000000-000-242AA-000000-997-03	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			93,740.94	0.00
110 04-000-000000-000-26522-000000-000-04	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		85,305.59		0.00
120 04-997-000000-000-242AA-000000-997-04	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		80,097.00		0.00
130 06-000-000000-000-26522-000000-000-06	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			165,402.59	0.00
140 06-000-000000-000-26522-000000-000-06	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		84,499.11		0.00
150 06-997-000000-000-242AA-000000-997-06	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		57,750.00		0.00
160 01-997-000000-000-242AA-000000-997-01	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			142,249.11	0.00
170 01-997-000000-590-93000-BGC997-997-01	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		1,985,980.00		0.00
180 02-997-000000-000-242AA-000000-997-02	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		34,229.00		0.00
190 02-997-000000-590-93000-ESX997-997-02	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			34,229.00	0.00
200 03-997-000000-000-242AA-000000-997-03	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		18,145.00		0.00
210 03-997-000000-590-93000-CHN997-997-03	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			18,145.00	0.00
220 04-997-000000-000-242AA-000000-997-04	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		129,901.00		0.00
230 04-997-000000-590-93000-CCG997-997-04	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			129,901.00	0.00
240 06-997-000000-000-242AA-000000-997-06	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY		115,520.00		0.00
250 06-997-000000-590-93000-ENH997-997-06	31-DEC-02 ADJUST INCENTIVE ACCRUAL PER NY			115,520.00	0.00
Header Total:			4,834,574.97	4,834,574.97	0.00
Batch Total:			4,834,574.97	4,834,574.97	0.00
Manual			4,834,574.97	4,834,574.97	0.00
Grand Total:			4,834,574.97	4,834,574.97	0.00

Debit to Liability

Credit to O&M Expense

Acct. 930 IS

Company of  
IS BOSTON GAS  
Total:

POSTED  
1/4/03

wcy

Journal: NE BGC9751 BD  
 Period: DECEMBER 02 Effective Date: 31 DEC 2002  
 Category: JE Source: Manual  
 Balance Type: A Budget:  
 Description: To Reclass Incentive Comp Journal Entries  
 Control Total:

## Conversion

Currency: USD  
 Date: 31 DEC 2002  
 Type: User  
 Rate: 1

Line	Account	Debit (USD)	Credit (USD)	Description
10	01 000 000000 720 92000 000000 000 01	111,350.00		To Reclass Incentive
20	02 000 000000 720 92000 000000 000 02	7,000.00		To Reclass Incentive
30	03 000 000000 720 92000 000000 000 03	72,000.00		To Reclass Incentive
40	04 000 000000 720 92000 000000 000 04	14,500.00		To Reclass Incentive
50	06 000 000000 720 92000 000000 000 06	10,300.00		To Reclass Incentive
60	01 997 002004 000 93000 BGC997 997 01		111,350.00	To Reclass Incentive
		215,250.00	215,250.00	

Acct Desc: BOSTON GAS COMPANY DEFAULT COST CENTER DEFAULT ACTIVITY INCENTIVE COMPENSATION

More Details

Change Currency

More Actions

BOSTON GAS  
Company 01

Acct. 930

\$1,985,980  
 + 111,350  
 \$2,097,330

00037

## Boston Gas Company

% Corporate Service Labor Charged to Boston Gas O&M

December, 2002 YTD

C:\Data\Rate Case 2002\All ServCo Projects - Dec YTD.xls]Summary

Total ServCo Labor	216,359,659
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ServCo Labor Charged to BGC O&M:

- Direct Charged	30,097,539
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- Through Clearing	4,292,956
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	<u>34,390,495</u>
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% ServCo Charged to BGC O&M	15.90%
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Ref Sheet

Source

Operations & Maintenance Summary Sheet  
See Labor.

00037